



# TERRY MOULTON

WISCONSIN STATE SENATOR



23<sup>RD</sup> SENATE DISTRICT

**Senator Moulton testimony on SB 557  
Senate Committee on Natural Resources  
March 9, 2012**

Good afternoon and thank you, Chairman and members, for the opportunity to testify on SB 557, regarding trading of water pollution credits.

This legislation is an expansion of a successful pilot program, which dates back to the late 1990s. A great deal of knowledge was gained from the pilot in the years since and now it is time to put what was learned into wider practice.

SB 557 will help to improve water quality in Wisconsin by ensuring the fastest and most cost-effective methods are used to reduce water pollution. For much of the state, this will mean less phosphorus in our lakes and rivers.

In addition to reduced water pollution, there will be a reduced burden on taxpayers. By allowing municipalities to work together with their neighbors in lowering their over-all pollution levels, taxpayers will not be on the hook for otherwise required water treatment system upgrades.

The companion to this bill, AB 627, was passed out of the Assembly Committee on Natural Resources with a unanimous 16 to 0 vote.

Thank you for your consideration of this legislation. I believe SB 557 will have a positive effect on Wisconsin's natural resources, which is why I am pleased this bill is receiving a hearing today.

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*Serving the 23rd Senate District*



# JOE KNILANS

STATE REPRESENTATIVE • 44<sup>TH</sup> ASSEMBLY DISTRICT

March 9, 2012

First of all, I would like to thank you Chairperson Kedzie and all of the other committee members for allowing me to testify on SB-557 and the companion bill AB-627.

- Wisconsin has long been known for its beautiful lakes, streams and rivers. They play a vital part in the tourism, commerce, recreation, environment and overall beauty and wonder of our state. For that reason we have established laws and regulations aimed at protecting our waters, not only for this generation but for generations to come.
- We also recognize our obligation to safeguard our waters not only for future generations but also for those who are downstream from us. Whatever we do in Wisconsin will eventually have an effect on the quality of their water too.
- In 1997, the legislature passed a law requiring the Department of Natural Resources to "administer at least one pilot project to evaluate the trading of water pollution credits" Under that law, a permitted source of water pollution could discharge pollutants at levels above what would otherwise be authorized in the Wisconsin Pollutant Discharge Elimination System (WPDES) discharge permit, while another entity removes additional pollutants.
- Since that time the DNR has allowed the trading of water pollution credits in pilot programs provided certain agreements have been reached with another discharger, the DNR or other units of government.
- During this fifteen year period the DNR has been able to identify and address many of the legal, administrative, and technical issues; evaluate costs; and research best management practices in relation to the trading of water pollution credits.
- The Trading Water Pollution Credits bill enables us to take the next step and move the program from a pilot program to one that is more readily available.
- There are several benefits to taking this step.

- Trading allows the DNR and stakeholders to look at a watershed holistically and to ask how efforts to improve water quality can be undertaken to best protect watershed health. This question is important, since the best opportunities for improving water quality and watershed health are not always located at point source outfalls.
- Where watershed circumstances favor trading, a trading program can be a powerful tool for achieving pollutant reductions faster and at lower cost.
- Trading may also provide ancillary benefits such as the restoration of river shorelines and wildlife habitat. Because those who generate water quality credits have the opportunity of receiving remuneration, a trading program encourages polluters to fund activities such as constructing wetlands or planting vegetation in order to improve water quality within a watershed.
- Planting trees and other vegetation can be an effective and low cost way to clean up contaminants and reduce soil erosion. Revegetation improves habitat and natural landscapes, thereby enhancing tourism and recreational use. This increased tourism and recreational use provides broad economic benefit within communities throughout our state.
- This bill also benefits municipalities and taxpayers. Instead of spending taxpayer money to upgrade water treatment systems, municipalities may be able to use this framework to trade phosphorous credits with sources upstream.
- Finally, a successful water quality trading system can stimulate and strengthen relationships among a wide range of groups including homeowners, farmers, fishermen, community leaders, tribes, members of civic and environmental groups, water and sewer system managers, business, and federal, state and local governments. These kinds of relationships can lead to significant long-term environmental improvements.
- There is a growing awareness by people in the public and private sectors that the water quality crisis is too big to be solved by traditional approaches alone. That is why implementing proven, market-based incentives to reduce threats to water quality makes sense.
- Thank you for allowing me to give this testimony. I would be happy to address any questions you might have.



**Senate Testimony on SB 557**

**By Kevin Kirsch, P.E.**

**March 9, 2012**

**Senate Committee on Natural Resources and Environment**

Senator Kedzie and members of the Senate Natural Resources and Environment Committee, thank you for the opportunity to testify for informational purposes regarding SB 557. My name is Kevin Kirsch and I am the technical lead for the development of a pollutant trading framework for the Department of Natural Resources.

Pollutant trading allows an entity with a higher cost of pollutant control to purchase credits from an entity with a lower cost of pollutant control and is endorsed by US EPA. As you have heard the purpose of this bill is to modify legislation passed in 1997 to expand this option statewide, expand the geographic extent in which individual trades between entities can occur, and extend the term of a pollutant trading agreement to longer than a single five year period.

The department conservatively estimates that pollutant trading can save regulated entities \$200 million dollars in the implementation of phosphorus reductions needed to meet water quality requirements. The existing pollutant trading pilots served their educational purpose and SB 557 allows us to move forward with a statewide market based program to achieve pollutant reductions at a lower cost.

Thank you again for the opportunity to testify and I am happy to answer any questions.

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Kevin Kirsch, P.E.  
Water Resource Engineer  
Bureau of Water Quality  
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Preserving The Environment •  
Improving Water Quality

Kevin L. Shafer, P.E.  
Executive Director

March 9, 2012

Neal Kedzie, Chair  
Senate Committee on Natural Resources and Environment  
Room 313 South  
State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882

Dear Chairman Kedzie and Members:

I am writing in support of Senate Bill 557 and its companion, Assembly Bill 627.

This legislation allows Wisconsin to move forward with the excellent work done by the Wisconsin Department of Natural Resources (WDNR) and its stakeholders by expanding the current limited water quality-based effluent trading framework statewide. I believe that the variety of innovative market-based strategies that this legislation would make possible have the potential to accelerate our efforts to achieve improved water quality.

In 2010, WDNR adopted phosphorus water quality standards for wastewater discharge permits. It is estimated that the cost for public and private entities to comply could be nearly \$1 billion. Establishing a statewide water quality-based effluent trading system will provide point source discharges a more cost effective tool to comply with the new standards. This concept would allow a point source discharger to receive credit for reducing phosphorus in other areas of their watershed, instead of requiring all of the necessary phosphorus reduction at the point source, which is usually more costly.

The current pilot programs that have allowed effluent trading have been effectively operated by WDNR and have been successful. WDNR estimates that expanding the program statewide could save regulated entities up to \$200 million. These cost savings will give our region a competitive advantage to grow, expand, and attract wet industries, such as breweries and food processors.

Thank you for the opportunity to express my opinion regarding this legislation. If you have any questions or need additional information, please feel free to contact me.

Sincerely,

Kevin L. Shafer, P.E.  
Executive Director

**Before the Wisconsin Senate  
Committee on Natural Resources and Environment  
March 9, 2012**

**Hearing on SB 557**

**Comments of Paul G. Kent and Daniel P. Gustafson on behalf of  
Municipal Environmental Group – Wastewater Division**

The Municipal Environmental Group Wastewater Division (MEG) is an association of nearly 100 municipalities throughout the state of Wisconsin who own and operate wastewater treatment facilities. For 24 years, MEG has been an advocate for municipalities in wastewater matters. MEG was one of the parties actively involved in the development of phosphorus water quality standards and the DNR trading protocol. We are here today to register our support for SB 557 and to outline the reasons why this is needed legislation.

The phosphorus water quality standards adopted by DNR in 2010 are now appearing in wastewater discharge permits being issued by DNR. Conservative estimates are that the cost to comply with these new standards will be in excess of a billion dollars statewide. This is because most of the phosphorus from municipal effluent has already been removed under existing requirements, and removing the last small percent will require advanced treatment technology such as membrane filtration.

And for all that money, the amount of water quality improvement that will be achieved is negligible. This is because on a statewide basis phosphorus from point sources like municipal facilities accounts for only 20% of the phosphorus in state waters. The rest comes from nonpoint sources such as agriculture, urban stormwater and legacy sources. Spending billions of dollars at municipal treatment plants is not going to significantly improve water quality. It is certainly not going to do so in a cost-effective manner.

One answer to this problem is the concept of water quality based effluent trading. Under this concept, point sources, such as municipal treatment plants can obtain a credit for funding verifiable reductions of phosphorus elsewhere in the watershed. In most cases, the cost of removing phosphorus from nonpoint sources through improved agricultural practices or through restoring wetlands or other phosphorus reduction projects is far less than the cost of removing phosphorus at a treatment plant. Municipalities save money, nonpoint sources obtain funding and the amount of phosphorus in the watershed is actually reduced in a meaningful amount.

To make this work, several things need to happen. One of those items is amending the existing trading law to provide increased flexibility for trading to be used on a statewide basis. The current trading statute was developed in 1998 as a pilot program and contains a number of limitations on how trades can occur and the time period for trades.

The proposed legislation provides needed flexibility in at least three ways.

- First, it removes the pilot restrictions and allows the program to be used statewide. This is critical because the phosphorus water quality standards are statewide standards.
- Second, it removes the restriction which limits trades to 5 years. Facility planning for municipalities is done on a 20 year planning horizon, and trades limited to 5 years are not viable alternatives.
- Third, the kinds of trades that should be allowed extend beyond projects with agricultural producers. Some municipalities may be able to trade with their municipal stormwater utilities. Others may have watershed projects they control that could result in phosphorus reduction. In some cases, providing cost share dollars may be the most cost effective way to address nonpoint issues. All of those options should be available.

As noted above, DNR is currently issuing permits with phosphorus standards. Nearly 200 backlogged permits will be issued over the coming months. For these communities the clock is ticking. They have compliance schedules and deadlines to determine how to meet their phosphorus limits. They need to know now whether trading will be a viable option or not. This legislation is a key piece in making that evaluation.

This bill is necessary to make trading a viable option, and it is necessary that it be considered this session.

MEG urges you to approve this bill. It provides for a cost-effective approach to improving the waters of this State. It is good for the communities in this state and good for the environment.



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To: Senate Committee on Natural Resources and Environment  
From: Curt Witynski, Assistant Director, League of Wisconsin Municipalities  
Date: March 9, 2012  
Re: SB 557; Trading of Water Pollution Credits

The League of Wisconsin Municipalities supports SB 557. The bill provides local governments with more flexibility to pursue water pollution trading credits in the context of complying with phosphorous and stormwater regulations. The bill clarifies and broadens current law to allow municipalities statewide to engage in point to point water pollution credit trading. It also allows communities to do projects so they can trade with themselves. For example, a city could acquire some unused farmland and restore it as a wetland to obtain sediment credit under their stormwater permit.

SB 557 is necessary to make trading of this type a viable option statewide. It is important for this bill to be enacted this session.

The League urges you to recommend passage of SB 557. It provides for a cost-effective approach to cleaning up the waters of this state. It is good for municipalities and it is good for the environment.

Thanks for considering our comments.